Versafood Services Limited

Annual Report 1968

VERSAFOOD SERVICES LIMITED

Master Chef to the Nation

About Versafood

Versafood Services Limited is an international company providing food service management to customers in Canada, Europe and the United Kingdom, as well as food facility planning and design in the United States and Canada. In 15 years, it has grown from a privately-owned vending company to a complex organization employing more than 5,500 people and serving approximately 256,800 meals daily through its five food service divisions.

Vending Division
This division manages the largest food and refreshment coin vending operation in the Commonwealth. Coin vending machines with hot and cold drinks, sandwiches, pastries, hot and cold meals, cigarettes and confection are supplied to industrial and commercial outlets.

Mobile Division
Through Jiffy Foods Limited, Versafood supplies mobile food services to offices, industries and construction sites. The mobile food operation with 150 trucks on the road is one of the largest in the world.

Business and Industry Division
More than 250 of Canada's largest business and industrial operations rely on Versafood to provide complete meal services in their employee cafeterias and dining rooms. This division also supplies student meals in high schools.

Institutional Division
Versafood's Institutional Division employs more dietitians than any Canadian organization except the Federal Government. It provides food management and special diet controls to close to 100 Canadian hospitals, homes for the aged and universities. These are facilities where three meals are provided daily.

Heritage Restaurant Division
This division operates public restaurants in Toronto, Niagara Falls, Ottawa, Calgary, Lethbridge, Edmonton, Winnipeg, St. John's, Moncton and Upper Canada Village. Best known is the seven-restaurant complex in the Toronto-Dominion Centre. This was the first completely integrated food complex in a skyscraper in the world and now serves more than 5,000 meals daily.

Manufacturing Division
This division manufactures both hot and cold drink vending machines, hot and cold buffet equipment and refurbishes existing equipment. It has exhibited and sold equipment on four continents.

Primavend Services Limited
Primavend is a Versafood associate company located in the United Kingdom, having a 50/50 partnership with J. Lyons and Company Limited, operators of the famous Lyons Tea Shops, hotels and restaurants in Great Britain. Primavend began as a vending operation and is now branching into full food service management to institutions, business and industry.

Planned Food Facilities (International) Ltd.
This recently formed company, a subsidiary of Versafood, offers clients a complete food facility planning service from the feasibility study to final design, supervision of construction and installation of equipment. This company is currently involved in 37 major projects in Canada and the United States, including large commercial and public dining facilities in Toronto, Edmonton, Moncton, New York, Chicago, San Francisco and Indianapolis.

Apetito-Fertigmenu—Karl Dusterberg KG
In February, 1969, Versafood agreed to purchase a 70% interest in Apetito-Fertigmenu—Karl Dusterberg KG of Rheine, Germany. The investment in this firm gives Versafood access to frozen meal processing and marketing methods that seem to be advanced over those being used in North America. Apetito presently supplies pre-prepared frozen meals to industry, airlines, ships, institutions and restaurants throughout Western Germany and is within easy distributing distance of Great Britain, France, Belgium, Holland and Denmark, which will provide a major part of the company's future market.

HEAD OFFICE
95 Brockhouse Road,
Toronto 14, Canada.

MONTREAL OFFICE
La Société VS Limitée,
4950, rue Bourg,
Ville St-Laurent,
Montréal, Canada.

TRANSFER AGENT
CROWN TRUST COMPANY,
Toronto, Canada.

AUDITORS
CLARKSON, GORDON & CO.,
Toronto, Canada.

VERSAFOOD SERVICES LIMITED

(Incorporated under the laws of Canada) and its subsidiary companies

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1968

(with comparative figures at December 31, 1967)

AUDITORS' REPORT

To the Shareholders of
Versafood Services Limited:

We have examined the consolidated balance sheet of Versafood Services Limited and its subsidiary companies as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in method of accounting for income taxes as described in note 5 of notes to consolidated financial statements.

CLARKSON, GORDON & CO.
Chartered Accountants

Toronto, Canada, February 24, 1969.

ASSETS

	1968	1967
CURRENT:		
Cash	$ 462,000	$ 131,000
Accounts receivable	3,648,000	2,772,000
Inventories valued at the lower of cost or market	1,312,000	956,000
Prepaid expenses	457,000	329,000
TOTAL CURRENT ASSETS	5,879,000	4,188,000
INVESTMENT IN ASSOCIATED COMPANY at cost (note 2)	330,000	330,000
FIXED, at cost:		
Buildings, equipment, machinery and vehicles	9,760,000	5,070,000
Less accumulated depreciation	4,508,000	1,949,000
	5,252,000	3,121,000
Land	60,000	12,000
TOTAL FIXED ASSETS	5,312,000	3,133,000
OTHER ASSETS:		
Investment in location acquisition costs (note 3)	5,607,000	3,629,000
Technical and systems know-how at cost	900,000	900,000
Incorporation and financing expenses	467,000	467,000
Deferred start-up costs (note 4)	177,000	137,000
TOTAL OTHER ASSETS	7,151,000	5,133,000
	$18,672,000	$12,784,000

LIABILITIES

	1968	1967
CURRENT:		
Due to bankers	$ —	$ 252,000
Accounts payable and accrued charges	4,748,000	2,641,000
Income and other taxes payable	829,000	407,000
TOTAL CURRENT LIABILITIES	5,577,000	3,300,000
DEFERRED INCOME TAXES (note 5)	298,000	—
LONG-TERM DEBT (note 6)	2,040,000	—
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized:		
2,000,000 common class A shares without nominal or par value		
2,000,000 common class B shares without nominal or par value		
Issued: (notes 7 and 8)		
650,000 common class A shares (1967 - 600,000)	6,600,000	6,000,000
1,000,000 common class B shares	2,400,000	2,400,000
	9,000,000	8,400,000
Retained earnings	1,757,000	1,084,000
TOTAL SHAREHOLDERS' EQUITY	10,757,000	9,484,000
	$18,672,000	$12,784,000

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended December 31, 1968 (with comparative figures for 1967)	1968	1967 Restated (Note 5)	1967 As Reported
Working capital at the beginning of the year	$ 888,000	$ 890,000	$ 890,000
Funds were provided from:			
Net income for the year	771,000	515,000	659,000
Provision for depreciation	748,000	483,000	483,000
Provision for deferred income taxes (note 5)	170,000	144,000	—
Amortization of deferred start-up costs	52,000	—	—
Funds provided from operations (cash flow)	1,741,000	1,142,000	1,142,000
Net proceeds from long-term debt	2,040,000	—	—
Issuance of shares of common stock (note 7)	600,000	1,800,000	1,800,000
Deferred income taxes of subsidiaries at time of acquisition	128,000	—	—
	4,509,000	2,942,000	2,942,000
Funds were applied to:			
Purchase of property and equipment (net)	2,927,000	1,763,000	1,763,000
Purchase of technical and systems know-how	—	900,000	900,000
Investment in location acquisition costs	1,978,000	—	—
Investment in shares of associated company	—	85,000	85,000
Dividend on common class A shares	98,000	60,000	60,000
Additions to deferred start-up costs	92,000	136,000	136,000
	5,095,000	2,944,000	2,944,000
Working capital at the end of the year	$ 302,000	$ 888,000	$ 888,000

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1968 (with comparative figures for 1967)	1968	1967 Restated (Note 5)	1967 As Reported
Sales	$47,272,000	$33,281,000	$33,281,000
Operating costs	43,840,000	30,998,000	30,998,000
Income before the following items	3,432,000	2,283,000	2,283,000
Marketing and administrative expenses	913,000	715,000	715,000
Depreciation	748,000	483,000	483,000
	1,661,000	1,198,000	1,198,000
Income before interest charges and income taxes	1,771,000	1,085,000	1,085,000
Interest charges	131,000	11,000	11,000
Income before income taxes	1,640,000	1,074,000	1,074,000
Income taxes (note 5)	869,000	559,000	415,000
Net income for the year	$ 771,000	$ 515,000	$ 659,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1968 (with comparative figures for 1967)	1968	1967
Balance at the beginning of the year	$ 1,084,000	$ 485,000
Net income for the year	771,000	659,000
	1,855,000	1,144,000
Dividend on common class A shares	98,000	60,000
Balance at the end of the year	$ 1,757,000	$ 1,084,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1968

1. Basis of Consolidation
The accompanying financial statements include the accounts of all subsidiary companies. Included in 1968, for the first time, are the accounts of a wholly-owned subsidiary, Jiffy Foods Limited and its subsidiary, which was acquired on January 5, 1968. Also included for the first time in 1968, for the period from date of acquisition, July 21, 1968, are the accounts of a wholly-owned subsidiary, Arco Automatic Retail Co. Limited, and its subsidiaries.

2. Associated Company
Versafood Services Limited's share of the losses of Primavend Services Limited, an associated company, since acquisition amounts to $198,000 of which $15,000 relates to 1968. No provision has been made in the accounts for these losses as the associated company is still considered to be in the development stage.

3. Investment In Location Acquisition Costs
The excess of cost of purchase over net assets of purchased businesses at the time ownership was acquired has been charged principally to "Investment In Location Acquisition Costs" and is not being amortized because, in the opinion of the Company, there has been no diminution in the value of such locations.

4. Deferred Start-Up Costs
In 1967 the Company initiated the policy of deferring in its accounts the initial operating losses, including engineering and design, of new restaurant facilities on the basis that they represent start-up costs incurred in establishing the restaurant facilities. While the length of the restaurant contracts are in excess of ten years (excluding options for renewal), such costs are being amortized in equal amounts over the initial three-year period of the respective contracts.

5. Income Taxes
(a) Effective January 1, 1968, the Company has changed its method of accounting for income taxes. Formerly, the tax provision charged against income for the year was based on taxes currently payable in respect of that fiscal year. On the new basis (the "tax allocation basis", as recommended by the Canadian Institute of Chartered Accountants) the income tax provision is based on income for the year as reported in the accounts. The Company has not made this change in method retroactive and accordingly adjustment has not been made in the accompanying financial statements for accumulated tax reductions of $333,000 arising in prior years as a result of the Company's former method of accounting for income taxes.
(b) For purposes of comparison only, the 1967 figures included in the consolidated statements of income and source and application of funds have been re-stated to give effect to the Company's new basis of accounting for income taxes.

6. Long-Term Debt
Long-term debt consists principally of $2,000,000 of term bank loans payable in equal annual instalments of $400,000 commencing January 31, 1970 and bearing interest at the rate of ¾ of 1% over the current prime rate.

7. Capital Stock
During the year, 50,000 common class A shares, valued at $600,000, were issued in partial consideration for the purchase of all the outstanding shares of Jiffy Foods Limited.

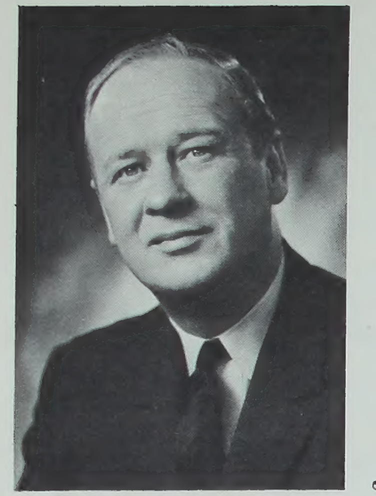
8. Commitments and Subsequent Events
(a) Versafood Services Limited is committed to invest $450,000 during 1969 in leasehold interests in new operations. The Company has undertaken lease obligations extending up to 1982 involving minimum annual rentals of $670,000.
(b) Subsequent to the year end, the Company agreed to purchase a 70% interest in Apetito-Fertigmenu —Karl Dusterberg KG, a company in West Germany which processes frozen prepared meals. The total consideration for this acquisition is to be $3,419,000, subject to possible minor downward adjustments depending upon the transfer taxes payable and the amount of profits earned by the company to June 30, 1969. The total consideration is payable $1,368,000 in cash and $2,051,000 by the issue of a maximum of 99,455 common class A shares. The Company also holds an option to purchase the remaining 30% interest in this company.

9. Statutory Information
Expenses include remuneration to directors, including salaries of those who are officers of the Company, amounting to $104,000.

On behalf of the Board:

ALLAN D. BAKER
DIXON S. CHANT

March 14, 1969



Message to the Shareholders

1968 has been another year of significant progress . . . progress which has been reflected throughout the company.

From a financial standpoint, our sales increase of 42% was more than matched by an improvement in income before taxes of 53% over 1967. As predicted last year, higher investments in administrative expense were made . . . an essential move in order to bolster our management strength for our current and future growth. Notwithstanding the dollar increase in this area, it is noteworthy that the percentage to sales factor of the marketing and administrative expense reduced from 2.1% in 1967 to 1.9% in 1968.

A further interesting measurement of our growth can be seen from a comparison of 1968 with 1964.

During the 5-year period, our sales have more than doubled from $20,746,000. to $47,272,000. (127%) while profits before taxes have gone up 13 times from $118,000. to $1,640,000. (1,290%).

Our internal financing resources were supported in 1968 through a $2,000,000.—5-year bank loan. The acquisition of Jiffy Foods and Arco Vending combined with our own normal expansion programmes created the necessity for this borrowing. The amount of this debt is well covered when one considers that our cash flow is running at approximately 87% of this loan.

Other major items of progress have been recorded but do not immediately appear in the balance sheet. As an example, real progress was made towards the establishment of numerous new programmes in our computer centre . . . programmes designed not only to meet the critical needs of our expansion but programmes which will produce a more effective approach to the increasing need for field and cost controls. We anticipate results from these studies and others underway will begin to appear during 1969.

A major step was taken in the establishment of better training programmes for our Company's 5,500 employees. We hope to be able to accelerate this important phase of our activities during the current year. We feel that Personnel Development Programmes are not only a good investment from a profit point of view but an important corporate obligation to our employees and clients.

Your Company has spent considerable time and talent in the past twelve months in developing a broad menu for centrally, pre-prepared meals often referred to as "Convenience Foods". These meals will be prepared in a large central commissary and delivered many miles in either refrigerated or frozen condition to a kitchen for reconstitution.

We have now developed some 25 basic meal formulas. These are being produced in control batches for testing purposes. The acquistion of Jiffy Foods with its large central kitchen has aided our efforts in this regard.

Elsewhere, you have read of our entry into the German and European markets through a major investment in Apetito of Rheine. The importance of this purchase should not be underestimated. Through Apetito we have opened a door to a market larger in population than that of the United States. Through Apetito we will gain frozen meal technology which will aid us immeasurably in our convenience foods progress.

The profit potential from this acquisition, both at home and abroad, is significant.

Our Heritage Restaurant Division continues to expand on a planned basis throughout many major cities in Canada. The Toronto-Dominion Centre outlets are now fully opened in the first tower and are meeting anticipated volumes. The second tower in this complex will open about mid-year.

Recently a 15 cent per share dividend was declared on the class A shares. The amount was not increased over the dividend paid in 1968. Your Board felt that, at this point of time, in view of our expansion and acquisition programmes, it would be unwise to increase dividends with the resultant diminution of available capital.

I join our Board and management team in expressing our appreciation to our shareholders, clients, suppliers and staff throughout Canada for their loyal support.

On behalf of the Directors,

Allan D. Baker,
Chairman of the Board

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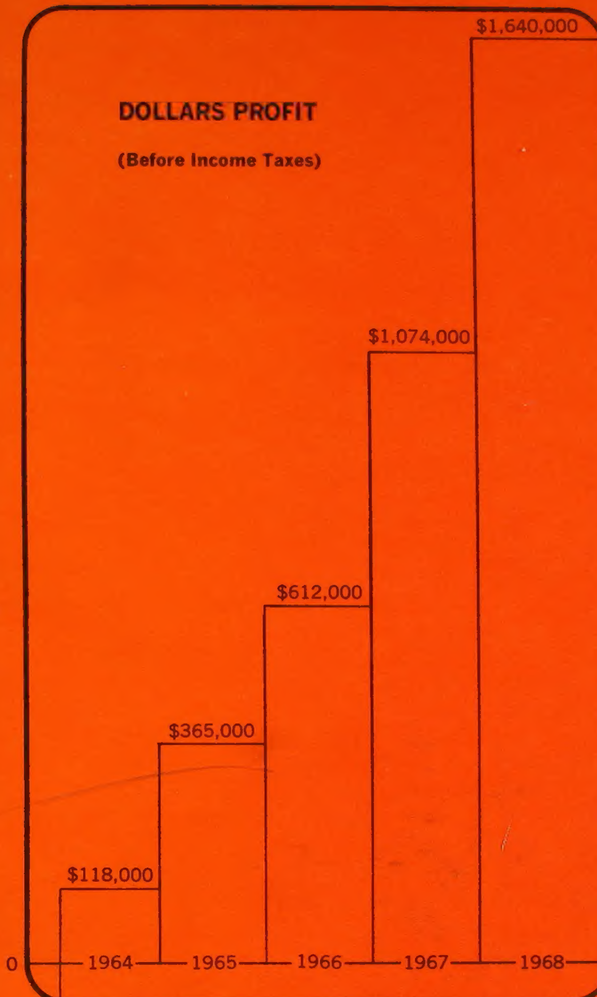

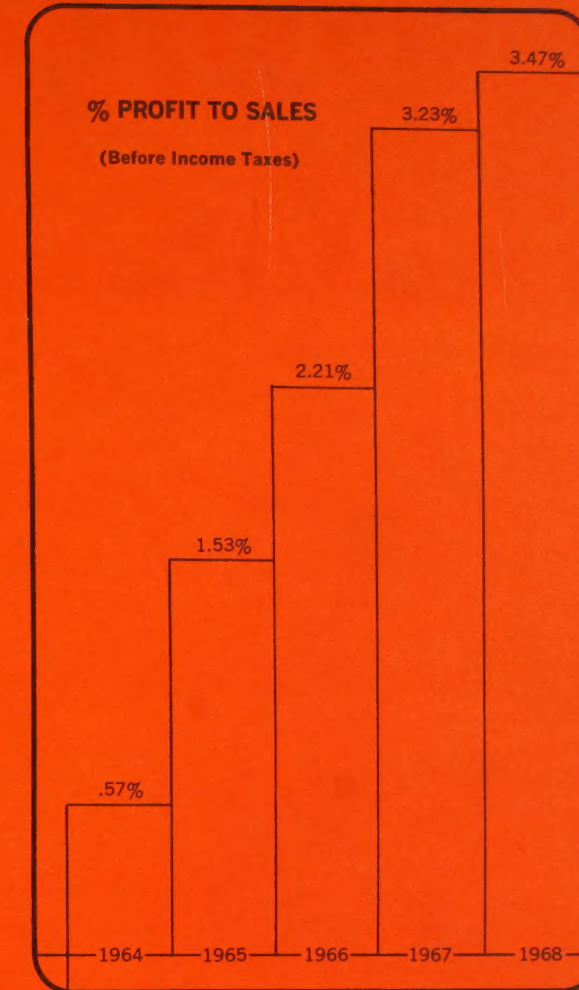

COMPARATIVE STATEMENTS OF INCOME

	1964	1965	1966	1967	1968
Sales	$20,746,000	$23,883,000	$27,716,000	$33,281,000	$47,272,000
Operating costs	19,570,000	22,450,000	25,992,000	30,998,000	43,840,000
Income before the following items	1,176,000	1,433,000	1,724,000	2,283,000	3,432,000
Marketing and administrative expenses	634,000	610,000	674,000	715,000	913,000
Depreciation	363,000	403,000	417,000	483,000	748,000
Income before interest and income taxes	179,000	420,000	633,000	1,085,000	1,771,000
Interest charges	61,000	55,000	21,000	11,000	131,000
Income before income taxes	118,000	365,000	612,000	1,074,000	1,640,000
Income taxes payable			90,000	415,000	699,000
Deferred income taxes (note)			189,000	144,000	170,000
Net income for the year	$118,000	$365,000	$333,000	$515,000	$771,000

NOTE: The deferred income taxes for the years 1966 and 1967 have not been recorded in the Company's books but are shown for comparative purposes only.

Master Chef to the Nation

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